

**City of Montrose
Genesee County, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

City of Montrose
Genesee County, Michigan
CITY COUNCIL
June 30, 2008

Eldon Dunklee	Mayor
Deborah Gross	Mayor Pro-Tem
Frank DeForke	Council Member
Norville Landes	Council Member
Gene Powell	Council Member
Candy LaMay	Council Member
Sue Head	Council Member

City of Montrose
Genesee County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Montrose
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Montrose, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Montrose's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Montrose, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montrose's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The following is a discussion and analysis of City of Montrose's (the City's) financial performance and position, providing an overview of the activities for the fiscal year ended June 30, 2008. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$4,356,006 (excluding component units).
- Governmental activities net assets were \$1,552,704.
- Business-type activity net assets were \$2,803,302.
- Component Unit net assets were \$168,806.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$178,448 with \$18,503 being reserved, designated, or otherwise earmarked for specific purposes (capital projects, prepaids, and rubbish levy).
- The General Fund realized \$14,986 more in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations expended \$24,532 less than appropriated.
- Overall, the General Fund balance decreased by \$78,094 to \$105,596 - of which \$93,845 is undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The total long-term debt for the primary government was \$1,708,341, a decrease of \$126,454 from the prior year.
- The City remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government were \$874,899.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question: Is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2007/2008. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, economic development, city improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Sewer System and Water System are examples of these activities.
- **Discretely Presented Component Unit** - The discretely presented component unit (Downtown Development Authority) is a legally separate organization for which the City Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Montrose include the General Fund, the Local Street Fund, the Major Street Fund, the Sewer System Fund and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. major street, local street, and), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the Capital Projects Fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest e.g. voted bonds and non-voted bonds funds).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund. *Internal Service funds* report activities of services to municipal departments by a given budgetary center. An example might be a Motor Pool Fund. The city presently does not employ this type of proprietary fund.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 12. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 13 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together and are presented in aggregate single columns in the appropriate basic financial statements.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Montrose combined net assets were \$4,448,066 at the end of this fiscal year's operations. The net assets of the governmental activities were \$1,552,704; the business-type activities were \$2,803,302.

Net Assets as of June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 313,061	\$ 793,935	\$ 1,212,943	\$ 1,377,548	\$ 1,526,004	\$ 2,171,483
Capital Assets	<u>2,293,669</u>	<u>1,710,863</u>	<u>2,324,214</u>	<u>2,253,890</u>	<u>4,617,883</u>	<u>3,964,753</u>
Total Assets	<u>\$ 2,606,730</u>	<u>\$ 2,504,798</u>	<u>\$ 3,537,157</u>	<u>\$ 3,631,438</u>	<u>\$ 6,143,887</u>	<u>\$ 6,136,236</u>
Current Liabilities	\$ 81,365	\$ 143,209	\$ 99,908	\$ 92,901	\$ 181,273	\$ 236,110
Noncurrent Liabilities	<u>972,661</u>	<u>1,027,928</u>	<u>633,947</u>	<u>675,210</u>	<u>1,606,608</u>	<u>1,703,138</u>
Total Liabilities	<u>\$ 1,054,026</u>	<u>\$ 1,171,137</u>	<u>\$ 733,855</u>	<u>\$ 768,111</u>	<u>\$ 1,787,881</u>	<u>\$ 1,939,248</u>
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 1,268,669	\$ 604,953	\$ 1,654,214	\$ 1,543,890	\$ 2,922,883	\$ 2,148,843
Restricted	56,285	458,443	81,477	77,517	137,762	535,960
Unrestricted	<u>227,750</u>	<u>270,265</u>	<u>1,067,611</u>	<u>1,241,265</u>	<u>1,295,361</u>	<u>1,512,185</u>
Total Net Assets	<u>\$ 1,552,704</u>	<u>\$ 1,333,661</u>	<u>\$ 2,803,302</u>	<u>\$ 2,863,327</u>	<u>\$ 4,356,006</u>	<u>\$ 4,196,988</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program Revenues						
Charges for Services	\$ 191,115	\$ 115,770	\$ 572,273	\$ 570,740	\$ 763,388	\$ 686,510
Grants and Contributions	224,815	166,843	80,089	80,788	304,904	247,631
General Revenues						
Property Taxes	460,244	424,445	-	-	460,244	424,445
State Shared Revenue	220,451	190,005	-	-	220,451	190,005
Investment Earnings	10,674	12,566	32,978	46,715	43,652	59,281
Miscellaneous	<u>10,933</u>	<u>3,393</u>	<u>73</u>	<u>741</u>	<u>11,006</u>	<u>4,134</u>
Total Revenues	1,118,232	913,022	685,413	698,984	1,803,645	1,612,006

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Changes in Net Assets for the Fiscal Year Ending June 30, 2008 and 2007 - continued

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Expenses						
General Govt.	\$ 165,193	\$ 208,747	\$ -	\$ -	\$ 165,193	\$ 208,747
Public Safety	352,868	338,329	-	-	352,868	338,329
Public Works	311,266	263,067	-	-	311,266	263,067
Community and Economic Develop.	8,088	21,744	-	-	8,088	21,744
Recreation and Cultural	14,066	19,555	-	-	14,066	19,555
Other	<u>47,708</u>	<u>46,224</u>	<u>745,438</u>	<u>705,429</u>	<u>793,146</u>	<u>751,653</u>
Total Expenses	<u>899,189</u>	<u>897,666</u>	<u>745,438</u>	<u>705,429</u>	<u>1,644,627</u>	<u>1,603,095</u>
Change in Net Assets	219,043	15,356	(60,025)	(6,445)	159,018	8,911
Net Assets - Beginning	<u>1,333,661</u>	<u>1,318,305</u>	<u>2,863,327</u>	<u>2,869,772</u>	<u>4,196,988</u>	<u>4,188,077</u>
Net Assets - Ending	<u>\$ 1,552,704</u>	<u>\$ 1,333,661</u>	<u>\$ 2,803,302</u>	<u>\$ 2,863,327</u>	<u>\$ 4,356,066</u>	<u>\$ 4,196,988</u>

Governmental Activities:

The result of 2007/2008 governmental activity was an increase of \$219,043 in net assets to \$1,552,704. Of the total governmental activities' net assets, \$1,268,669 is invested in capital assets net of related debt, \$56,285 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$227,750 is listed as unrestricted.

Revenues:

The three largest revenue categories were property taxes at 41.2%, and grant and contributions at 20.1%, and State Shared Revenue at 19.7%. The City levied a property tax millage for the year ended June 30, 2008, for general government operations at 17.1776 mills, which is not assigned to any particular activity. State Shared Revenue, the second largest service of governmental activity revenue, is not assigned to any particular activity. Grants and contributions revenue, the third largest source of governmental activity revenue, are assigned to particular functional activities.

Expenses:

Public Safety is the largest area, expending approximately 39.2% of the governmental activities total on law enforcement, fire protection and code enforcement. Public Works expended approximately 34.6% of the governmental activities total and would be higher if capital outlay charged to this function in the funds were not shown as capital assets in the government-wide financial statements. General government is the third largest governmental activity, expending approximately 18.4% of the governmental activities total and includes general government departments (e.g., council, community promotions, city manager, elections, general administration, assessor, and city hall maintenance).

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Business-type Activities:

Net assets in business-type activities decreased by \$60,025 during the 2007/2008 fiscal year. Of the business-type activities' net assets, \$1,654,214 is invested in capital assets net of related debt; \$81,477 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the City government, and the balance of \$1,057,028 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS

As the City completed 2007/2008, its governmental funds reported *combined* fund balances of \$178,448. This is a net decrease of \$468,031. The net changes are summarized in the following chart:

	General Fund	Major Street	Local Street	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance 06/30/07	\$ 183,690	\$ 213,693	\$ 112,765	\$ 136,331	\$ 646,479
Fund Balance 06/30/08	\$ 105,596	\$ 35,084	\$ 17,323	\$ 20,445	\$ 178,448
Net Change	\$(78,094)	\$(178,609)	\$(95,442)	\$(115,886)	\$(468,031)

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Council policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2008, the General Fund reported a fund balance of \$105,596. This amount is a decrease of \$78,094 from the fund balance of \$183,690 reported as of June 30, 2007. The 2007/2008 original budget had called for a \$173,663 increase of fund balance.

The General Fund 2007/2008 expenditures exceeded 2007/2008 revenues by \$9,116 due to the continued general economic decline of Michigan and Genesee County in particular. Also, the expenditures for police and fire/rescue services agreements with Montrose Charter Township are annually increasing while General Fund revenue sources are at best flat and, at worst, suffering actual declines from the levels achieved in recent years. Difficult decisions on either reducing operating expenditures and/or increasing revenues will prove to be a challenging plague on City Council's abilities in formulating responsible and reasonable public policy decisions over the next few years without any easy or simple remedies to these General Fund structural fiscal problems.

General Fund Budgetary Highlights:

The City of Montrose's budget is a dynamic document. Although adopted in June (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$853,068, \$14,986 above the final amended budget. There were some wide variations in individual revenue accounts reflecting the tightening national and local economy.

The City's expenditures and other financing uses budget was increased by \$12,797 (1.4% over the original budget) during 2008/2007.

Actual City expenditures and other financing uses for 2008/2007 were \$24,532 below the amended budget and \$11,735 below the original budget.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Major Street Fund

As of June 30, 2008, the Major Street Fund reported a fund balance \$35,084, which is a decrease of \$178,609 from the prior year. \$33,893 of the fund balance is reported as undesignated/unreserved.

Local Street Fund

As of June 30, 2008, the Local Street Fund reported a fund balance \$17,323, which is a decrease of \$95,442 from the prior year. \$15,640 of the fund balance is reported as undesignated/unreserved.

Enterprise Funds

As the City completed 2007/2008, its enterprise funds reported *combined* net assets of \$2,803,302. This is a net decrease of \$60,025. The net changes are summarized in the following chart.

	Sewer System Fund	Water System Fund	Total
Net Assets 06/30/07	\$ 1,479,621	\$ 1,383,706	\$ 2,863,327
Net Assets 06/30/08	\$ 1,440,367	\$ 1,362,935	\$ 2,803,302
Net Change	\$ 39,254	\$ 20,771	\$ 60,025

Sewer System Fund:

As of June 30, 2008, the Sewer System Fund reported net assets of \$1,440,367, a decrease of \$39,254 from the prior year. The net assets balance is divided between \$780,018 invested in capital assets, net of related debt, and \$660,349 as unrestricted.

Water System Fund:

As of June 30, 2008, the Water System Fund reported a fund balance of \$1,362,935, an increase of \$20,771 from the prior year. The net assets balance is divided between \$874,196 invested in capital assets, net of related debt; \$81,477 is restricted for debt service or water assessment, and \$407,262 as unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2007/2008, the City had invested \$4,617,883, and \$96,934 for the component unit, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note E of the Financial Statements. Net Book value of capital assets at June 30, 2008, was as follows:

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

	Governmental Activities	Business- type Activities	Component Unit DDA	Total
Land	\$ 99,000	\$ 50,620	\$ 38,000	\$ 187,620
Construction in progress	-	16,590	-	16,590
Buildings, vehicles, and equipment, net	351,064	-	-	351,064
Sewer system, net	-	712,808	-	712,808
Water system, net	-	1,544,196	-	1,544,196
Infrastructure Streets & Bridges, net	1,843,605	-	58,934	1,902,539
Capital assets, net	<u>\$ 2,293,669</u>	<u>\$ 2,324,214</u>	<u>\$ 96,934</u>	<u>\$ 4,714,817</u>

Long-term Debt - As of June 30, 2008, the City had \$1,708,341 in loans outstanding for the primary government. This level of net obligation is \$128,454 less than the obligation recorded as of June 30, 2007.

Outstanding Debt as of June 30, 2008:

Primary Government	July 1, 2007	Additions	Reductions	June 30, 2008
Governmental Activities				
General Obligation Bonds	\$ 1,080,000	\$ -	\$ 55,000	\$ 1,025,000
Installment Loan	25,910	-	25,910	-0-
Compensated Absences	9,628	17,233	21,478	5,383
Business-type Activities				
Water Revenue Bonds	710,000	-	40,000	670,000
Compensated Absences	<u>9,257</u>	<u>3,235</u>	<u>6,534</u>	<u>5,958</u>
Total Reporting Entity	<u>\$ 1,834,795</u>	<u>\$ 20,468</u>	<u>\$ 148,922</u>	<u>\$ 1,708,341</u>

A more detailed discussion of the City's long-term debt obligations is presented in Note F to the financial statements.

ECONOMIC OUTLOOK:

- Property tax revenue has not kept pace with inflation.
- Health and dental insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to numerous financial market conditions, the city's employee retirement medical insurance program and demographic changes in the workforce.
- Utility costs are rising faster than the rate of inflation.
- There has been very little private investment construction of new buildings within the City over the past few years to increase the tax base.
- Genesee County suffers from an unusually high unemployment rate in Michigan because of auto industry downsizing efforts of its labor force over the past few years that continues into the present.
- State revenue sharing has actually declined over the past few years as the Michigan economy continues to struggle without a recovery on the near horizon.
- Increasing water and sanitary sewer system charges from the City of Detroit for water supplies and the Genesee County Drain Commissioners' Office for sanitary sewer collection and treatment services are having a deleterious affect on the city maintaining the City's existing public utility rate structures.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Montrose's Office at (810) 639-6168.

BASIC FINANCIAL STATEMENTS

City of Montrose

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 285,479	\$ 860,385	\$ 1,145,864	\$ 71,968
Cash - restricted	-	79,209	79,209	-
Receivables	134,491	105,346	239,837	-
Due from other governmental units	54,197	-	54,197	-
Interfunds	(165,400)	165,400	-0-	-
Prepays	4,294	2,603	6,897	-
Total current assets	313,061	1,212,943	1,526,004	71,968
Noncurrent assets				
Capital assets not being depreciated	99,000	67,210	166,210	38,000
Capital assets, net of accumulated depreciation	2,194,669	2,257,004	4,451,673	58,934
Total noncurrent assets	2,293,669	2,324,214	4,617,883	96,934
TOTAL ASSETS	2,606,730	3,537,157	6,143,887	168,902
LIABILITIES				
Current liabilities				
Accounts payable	9,366	46,293	55,659	96
Accrued liabilities	3,951	2,477	6,428	-
Accrued interest payable	10,326	8,125	18,451	-
Current portion of compensated absences	2,722	3,013	5,735	-
Current portion of long-term debt	55,000	40,000	95,000	-
Total current liabilities	81,365	99,908	181,273	96
Noncurrent liabilities				
Customer deposits	-	1,002	1,002	-
Noncurrent portion of compensated absences	2,661	2,945	5,606	-
Noncurrent portion of long-term debt	970,000	630,000	1,600,000	-
Total noncurrent liabilities	972,661	633,947	1,606,608	-0-
TOTAL LIABILITIES	1,054,026	733,855	1,787,881	96
NET ASSETS				
Invested in capital assets, net of related debt	1,268,669	1,654,214	2,922,883	96,934
Restricted for:				
Streets	52,407	-	52,407	-
Debt service	-	70,082	70,082	-
Water assessment	-	11,395	11,395	-
Unrestricted	231,628	1,067,611	1,299,239	71,872
TOTAL NET ASSETS	\$ 1,552,704	\$ 2,803,302	\$ 4,356,006	\$ 168,806

See accompanying notes to financial statements.

City of Montrose
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 165,193	\$ 51,022	\$ 19,972	\$ -	\$ (94,199)	\$ -	\$ (94,199)	\$ -
Public safety	352,868	18,862	-	-	(334,006)	-	(334,006)	-
Public works	355,411	102,774	128,502	138,943	14,808	-	14,808	-
Community and economic development	8,088	-	-	-	(8,088)	-	(8,088)	-
Recreation and cultural	14,066	-	-	-	(14,066)	-	(14,066)	-
Interest on long-term debt	47,708	-	-	-	(47,708)	-	(47,708)	-
Total governmental activities	943,334	172,658	148,474	138,943	(483,259)	-0-	(483,259)	-0-
Business-type activities:								
Sewer system	344,148	283,356	-	589	-	(60,203)	(60,203)	-
Water system	401,290	288,917	-	79,500	-	(32,873)	(32,873)	-
Total business-type activities	745,438	572,273	-0-	80,089	-0-	(93,076)	(93,076)	-0-
Total primary government	<u>\$ 1,688,772</u>	<u>\$ 744,931</u>	<u>\$ 148,474</u>	<u>\$ 219,032</u>	(483,259)	(93,076)	(576,335)	-0-
Component unit:								
Downtown Development Authority	<u>\$ 111,051</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-	-	-0-	(111,051)
		General revenues:						
		Property taxes			460,244	-	460,244	83,693
		State shared revenues			220,451	-	220,451	-
		Investment earnings			10,674	32,978	43,652	2,067
		Miscellaneous			10,933	73	11,006	-
		Total general revenues			702,302	33,051	735,353	85,760
		Change in net assets			219,043	(60,025)	159,018	(25,291)
		Net assets, beginning of the year			1,333,661	2,863,327	4,196,988	194,097
		Net assets, end of the year			\$ 1,552,704	\$ 2,803,302	\$ 4,356,006	\$ 168,806

See accompanying notes to financial statements.

City of Montrose

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

		Special Revenue	
	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 241,745	\$ 24,745	\$ 8,514
Receivables			
Accounts	2,919	129	147
Special assessments	-	13,369	107,927
Due from other governmental units	36,991	12,626	4,580
Due from other funds	8,000	-	3,113
Prepays	1,420	1,191	1,683
TOTAL ASSETS	\$ 291,075	\$ 52,060	\$ 125,964
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,280	\$ 29	\$ 27
Accrued liabilities	2,799	465	687
Due to other funds	173,400	3,113	-
Deferred revenue	-	13,369	107,927
TOTAL LIABILITIES	185,479	16,976	108,641
FUND BALANCES			
Reserved for:			
Prepays	1,420	1,191	1,683
Rubbish levy	10,331	-	-
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in:			
General Fund	93,845	-	-
Special Revenue Funds	-	33,893	15,640
TOTAL FUND BALANCES	105,596	35,084	17,323
TOTAL LIABILITIES AND FUND BALANCES	\$ 291,075	\$ 52,060	\$ 125,964

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 10,475	\$ 285,479
10,000	13,195
-	121,296
-	54,197
-	11,113
-	4,294
<u>\$ 20,475</u>	<u>\$ 489,574</u>
\$ 30	\$ 9,366
-	3,951
-	176,513
-	121,296
30	311,126
-	4,294
-	10,331
3,878	3,878
-	93,845
16,567	66,100
<u>20,445</u>	<u>178,448</u>
<u>\$ 20,475</u>	<u>\$ 489,574</u>

City of Montrose

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 178,448

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,802,535	
Accumulated depreciation is	<u>(508,866)</u>	
Capital assets, net		2,293,669

Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue	121,296
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	(1,025,000)	
Accrued interest payable	(10,326)	
Compensated absences	<u>(5,383)</u>	
		<u>(1,040,709)</u>

Net assets of governmental activities \$ 1,552,704

See accompanying notes to financial statements.

City of Montrose

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

		Special Revenue	
	General	Major Street	Local Street
REVENUES			
Taxes	\$ 459,550	\$ -	\$ -
Licenses and permits	29,996	-	-
Intergovernmental	220,451	88,285	40,217
Charges for services	70,984	-	-
Fines and forfeits	7,783	-	-
Interest and rents	57,834	1,483	688
Other	6,470	25,342	39,161
TOTAL REVENUES	853,068	115,110	80,066
EXPENDITURES			
Current			
General government	163,030	-	-
Public safety	352,868	-	-
Public works	129,984	274,444	194,783
Community and economic development	2,359	-	-
Recreation and cultural	14,066	-	-
Debt service			
Principal	25,910	-	-
Interest	567	-	-
Capital outlay	173,400	-	-
TOTAL EXPENDITURES	862,184	274,444	194,783
EXCESS OF REVENUES (UNDER) EXPENDITURES	(9,116)	(159,334)	(114,717)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	19,275
Transfers out	(68,978)	(19,275)	-
TOTAL OTHER FINANCING SOURCES (USES)	(68,978)	(19,275)	19,275
NET CHANGE IN FUND BALANCES	(78,094)	(178,609)	(95,442)
Fund balances, beginning of year	183,690	213,693	112,765
Fund balances, end of year	\$ 105,596	\$ 35,084	\$ 17,323

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 459,550
-	29,996
30,986	379,939
-	70,984
-	7,783
573	60,578
19,972	90,945
<hr/>	<hr/>
51,531	1,099,775
-	163,030
-	352,868
-	599,211
5,729	8,088
-	14,066
55,000	80,910
47,141	47,708
128,525	301,925
<hr/>	<hr/>
236,395	1,567,806
<hr/>	<hr/>
(184,864)	(468,031)
68,978	88,253
-	(88,253)
<hr/>	<hr/>
68,978	-0-
<hr/>	<hr/>
(115,886)	(468,031)
136,331	646,479
<hr/>	<hr/>
\$ 20,445	\$ 178,448
<hr/>	<hr/>

City of Montrose

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ (468,031)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 643,634	
Depreciation expense	<u>(104,973)</u>	
Excess of capital outlay over depreciation expense		538,661

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	62,602
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increases long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond and loan principal retirement	80,910
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	656	
Decrease in accrued compensated absences	<u>4,245</u>	
		<u>4,901</u>

Change in net assets of governmental activities	<u>\$ 219,043</u>
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See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2008

	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 650,829	\$ 209,556	\$ 860,385
Cash - restricted	-	79,209	79,209
Accounts receivable	48,762	56,584	105,346
Due from other funds	-	173,620	173,620
Prepays	1,233	1,370	2,603
Total current assets	700,824	520,339	1,221,163
Noncurrent assets			
Capital assets not being depreciated	67,210	-	67,210
Capital assets, net of accumulated depreciation	712,808	1,544,196	2,257,004
Total noncurrent assets	780,018	1,544,196	2,324,214
TOTAL ASSETS	1,480,842	2,064,535	3,545,377
LIABILITIES			
Current liabilities			
Accounts payable	32,127	14,166	46,293
Wages payable	1,152	1,325	2,477
Accrued interest payable	-	8,125	8,125
Due to other funds	4,220	4,000	8,220
Current portion of compensated absences	1,505	1,508	3,013
Current portion of long-term debt	-	40,000	40,000
Total current liabilities	39,004	69,124	108,128
Noncurrent liabilities			
Payable from restricted cash -			
Customer deposits payable	-	1,002	1,002
Noncurrent portion of compensated absences	1,471	1,474	2,945
Noncurrent portion of bonds payable	-	630,000	630,000
Total noncurrent liabilities	1,471	632,476	633,947
TOTAL LIABILITIES	40,475	701,600	742,075
NET ASSETS			
Invested in capital assets, net of related debt	780,018	874,196	1,654,214
Restricted for debt service	-	70,082	70,082
Restricted for water assessment	-	11,395	11,395
Unrestricted	660,349	407,262	1,067,611
TOTAL NET ASSETS	\$ 1,440,367	\$ 1,362,935	\$ 2,803,302

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2008

	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services			
User charges	\$ 281,306	\$ 272,357	\$ 553,663
Tap in fees	2,050	4,000	6,050
Other	35	38	73
TOTAL OPERATING REVENUES	283,391	276,395	559,786
OPERATING EXPENSES			
Salaries and wages	51,749	63,116	114,865
Fringe benefits	31,086	31,086	62,172
Contractual service	145,639	168,937	314,576
Supplies	3,322	3,676	6,998
Utilities	5,917	5,974	11,891
Insurance	9,418	9,549	18,967
Repairs and maintenance	27,471	20,579	48,050
Other	8,030	8,093	16,123
Depreciation	61,516	55,280	116,796
TOTAL OPERATING EXPENSES	344,148	366,290	710,438
OPERATING LOSS	(60,757)	(89,895)	(150,652)
NONOPERATING REVENUES (EXPENSES)			
Hydrant assessments	-	12,560	12,560
Special assessments	589	79,500	80,089
Interest revenue	20,914	12,064	32,978
Interest expense	-	(35,000)	(35,000)
TOTAL NONOPERATING REVENUES (EXPENSES)	21,503	69,124	90,627
CHANGE IN NET ASSETS	(39,254)	(20,771)	(60,025)
Net assets, beginning of year	1,479,621	1,383,706	2,863,327
Net assets, end of year	\$ 1,440,367	\$ 1,362,935	\$ 2,803,302

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 278,005	\$ 273,864	\$ 551,869
Cash received from/(paid to) other funds - net	4,220	(169,620)	(165,400)
Cash paid to suppliers	(181,800)	(206,415)	(388,215)
Cash paid for employee benefits	(32,420)	(33,551)	(65,971)
Cash paid to employees	(51,749)	(62,989)	(114,738)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	16,256	(198,711)	(182,455)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Hydrant assessments	-	12,560	12,560
Special assessments	589	79,500	80,089
Interest expense	-	(35,000)	(35,000)
Capital purchases	(162,242)	(24,878)	(187,120)
Payments on borrowings	-	(40,000)	(40,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(161,653)	(7,818)	(169,471)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	20,914	12,064	32,978
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,483)	(194,465)	(318,948)
Cash and cash equivalents, beginning of year	775,312	483,230	1,258,542
Cash and cash equivalents, end of year	\$ 650,829	\$ 288,765	\$ 939,594
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (60,757)	\$ (89,895)	\$ (150,652)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	61,516	55,280	116,796
(Increase) in accounts receivable	(5,386)	(2,531)	(7,917)
(Increase) in due from other funds	-	(173,620)	(173,620)
Decrease in prepaids	9,490	9,484	18,974
Increase in accounts payable	8,507	909	9,416
Increase in wages payable	-	127	127
(Decrease) in other accrued liabilities	-	(500)	(500)
Increase in due to other funds	4,220	4,000	8,220
(Decrease) in compensated absences	(1,334)	(1,965)	(3,299)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 16,256	\$ (198,711)	\$ (182,455)

See accompanying notes to financial statements.

City of Montrose

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	Agency Funds
ASSETS	
Cash	\$ 36,942
Due from individuals and agencies	90
TOTAL ASSETS	<u>\$ 37,032</u>
LIABILITIES	
Due to other governmental units	<u>\$ 37,032</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Montrose is located in Genesee County, Michigan and has a population of approximately 1,600. The City of Montrose operates with a Council-Manager form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected at large for overlapping four (4) year terms and a Mayor elected at large for a two (2) year term. The Council appoints the City Manager and approves the appointment of the Treasurer, Clerk, Public Works Director, and Assessor based on City Manager recommendations.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to City governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Montrose (primary government) and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

2. Discretely Presented Component Unit

The component unit columns in the financial statements include the financial data of the City's component unit (Downtown Development Authority). The governing body of the Downtown Development Authority (DDA) is appointed by the City Council, the Authority's budget is subject to the approval of the City Council and the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues). The DDA is included in the City's financial statements and is not audited separately.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the City's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the City's local streets.
- d. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the City; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund accounts for resources generated by providing water services to residents of the City; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

The City also reports agency funds to account for assets held by the City as an agent for other governments, private organizations, or individuals. Agency funds are, by nature, custodial, therefore, operation results are not measured.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting - continued

Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets are prepared on a basis consistent with the modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing its budgetary data.

- a. Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second week of May, the budget is legally adopted by appropriating the funds necessary to operate.
- d. The budget is legally adopted at the functional level for the General Fund and Special Revenue Funds; however they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Any revisions to the budget must be approved by the City Council.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of various savings and checking accounts and pooled investment accounts. The cash equivalents are recorded at cost, which approximates market value.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Restricted Cash

A portion of the cash of the Water System Fund is classified as restricted cash because its use is limited. The Water System Fund's restrictions are due to bond resolution requirements to maintain certain balances in separate accounts for debt service and general purpose reserves, and also for the amount of customer deposits held at June 30, 2008.

9. Property Tax

The City of Montrose bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the City of Montrose on July 1 and December 1 and are payable without penalty through September 15 and February 14, respectively. The July 1 levy is composed of the City's millage, the County's millage, special assessments, and the school taxes. The December 1 levy is composed of school taxes and special assessments. All real property taxes not paid to the City by March 1 are turned over to the Genesee County Treasurer for collection. The Genesee County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by Charter to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2008, the City levied 17.1776 mills per \$1,000 of assessed valuation for general governmental services. The total Taxable Value for the 2007 levy for property within the City was \$26,951,387.

10. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between individual governmental and individual proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

11. Compensated Absences

City employees are granted sick and vacation leave in varying amounts. In the event of termination, an employee is paid for accumulated sick and vacation time. All employees with accumulated unused sick and vacation time pay at June 30, 2008, were vested and the total due to them, along with the related payroll taxes, is recorded in the governmental-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when earned.

12. Capital Assets

Capital assets include land, buildings, equipment and machinery, vehicles, infrastructure, and utility systems and improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities, business-type activities, and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than three (3) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**12. Capital Assets - continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer and Water systems and improvements	10 - 50 years
Equipment and machinery	3 - 12 years
Buildings	25 years
Vehicles	10 years
Infrastructure	20 - 50 years

13. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 530,697	\$ 542,560
COMPONENT UNIT		
Savings	71,968	71,968
FIDUCIARY FUNDS		
Checking and savings	<u>36,942</u>	<u>114,883</u>
TOTAL REPORTING UNIT	<u>\$ 639,607</u>	<u>\$ 729,411</u>

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2008, the City accounts were insured by the FDIC for \$200,000, and the amount of \$529,411 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of June 30, 2008, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents captions on the basic financial statements are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT			
Uncategorized pooled investment funds			
MBIA	\$ 309,861	\$ 309,861	42 days
Chase Governmental MMF	24,159	24,159	26 days
Public Funds Investment Trust	<u>360,356</u>	<u>360,356</u>	< 30 days
	<u>\$ 694,376</u>	<u>\$ 694,376</u>	

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the Public Funds Investment Trust was rated AAA by Standard and Poor's. The Chase Governmental MMF investment was rated AAA by Moody's. The MBIA - Michigan Class investment is rated AAA/V1+ by Fitch.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Board approved policy.

The cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents caption on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 1,145,864	\$ 71,968	\$ 36,942	\$ 1,254,774
Cash - restricted	<u>79,209</u>	<u>-</u>	<u>-</u>	<u>79,209</u>
	<u>\$ 1,225,073</u>	<u>\$ 71,968</u>	<u>\$ 36,942</u>	<u>\$ 1,333,983</u>

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to Local Street Fund from:	
Major Street Fund	<u>\$ 19,275</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 68,978</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to General Fund from:	
Sewer System Fund	\$ 4,000
Water System Fund	<u>4,000</u>
	<u>\$ 8,000</u>
Due to Local Street Fund from:	
Major Street Fund	<u>\$ 3,113</u>
Due to Water System Fund from:	
General Fund	\$ 173,400
Sewer System Fund	<u>220</u>
	<u>\$ 173,620</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

PRIMARY GOVERNMENT

	Balance <u>July 1, 2007</u>	Additions/ <u>Reclassifications</u>	Deletions/ <u>Reclassifications</u>	Balance <u>June 30, 2008</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 99,000	\$ -	\$ -	\$ 99,000
Construction in progress	<u>152,035</u>	<u>-</u>	<u>(152,035)</u>	<u>-0-</u>
Total capital assets, not being depreciated	251,035	-0-	(152,035)	99,000
Capital assets being depreciated				
Buildings	68,800	82,942	-	151,742
Furniture and equipment	120,605	-	-	120,605
Vehicles	248,500	217,545	(20,500)	445,545
Infrastructure	<u>1,446,316</u>	<u>539,327</u>	<u>-</u>	<u>1,985,643</u>
Total capital assets, being depreciated	1,884,221	839,814	(20,500)	2,703,535

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance July 1, 2007	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2008
Governmental activities - continued				
Less accumulated depreciation for:				
Buildings	\$(68,800)	\$ -	\$ -	\$(68,800)
Furniture and equipment	(46,218)	(7,064)	-	(53,282)
Vehicles	(232,000)	(33,246)	20,500	(244,746)
Infrastructure	(77,375)	(64,663)	-	(142,038)
Total accumulated depreciation	(424,393)	(104,973)	20,500	(508,866)
Net capital assets being depreciated	1,459,828	734,841	-0-	2,194,669
Capital assets, net	\$ 1,710,863	\$ 734,841	\$(152,035)	\$ 2,293,669

Depreciation expense was charged to activities of the following governmental activities:

General government	\$ 7,064
Public works	97,909
Total depreciation expense	\$ 104,973

	Balance July 1, 2007	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2008
Business-type activities (Sewer system)				
Capital assets not being depreciated				
Land	\$ 50,620	\$ -	\$ -	\$ 50,620
Construction in progress	3,265	16,590	(3,265)	16,590
Total capital assets, not being depreciated	53,885	16,590	(3,265)	67,210
Capital assets being depreciated				
Sewer system	2,350,146	148,917	-	2,499,063
Equipment	11,196	-	-	11,196
Total capital assets, being depreciated	2,361,342	148,917	-0-	2,510,259
Less accumulated depreciation for:				
Sewer system	(1,728,586)	(60,661)	-	(1,789,247)
Equipment	(7,349)	(855)	-	(8,204)
Total accumulated depreciation	(1,735,935)	(61,516)	-0-	(1,797,451)
Net capital assets being depreciated	625,407	87,401	-0-	712,808
Capital assets, net	\$ 679,292	\$ 103,991	\$(3,265)	\$ 780,018

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	<u>Balance July 1, 2007</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2008</u>
Business-type activities				
(Water system)				
Capital assets not being depreciated				
Construction in progress	\$ 13,964	\$ -	\$ (13,964)	\$ -0-
Capital assets being depreciated				
Water system	2,439,349	38,842	-	2,478,191
Equipment	<u>11,196</u>	<u>-</u>	<u>-</u>	<u>11,196</u>
Total capital assets, being depreciated	2,450,545	38,842	-0-	2,489,387
Less accumulated depreciation for:				
Water system	(882,561)	(54,425)	-	(936,986)
Equipment	<u>(7,350)</u>	<u>(855)</u>	<u>-</u>	<u>(8,205)</u>
Total accumulated depreciation	<u>(889,911)</u>	<u>(55,280)</u>	<u>-0-</u>	<u>(945,191)</u>
Net capital assets being depreciated	<u>1,560,634</u>	<u>(16,438)</u>	<u>-0-</u>	<u>1,544,196</u>
Capital assets, net	<u>\$ 1,574,598</u>	<u>\$ (16,438)</u>	<u>\$ (13,964)</u>	<u>\$ 1,544,196</u>

COMPONENT UNIT

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Downtown Development Authority				
Capital assets not being depreciated				
Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated				
Infrastructure	98,223	-	-	98,223
Less accumulated depreciation for:				
Infrastructure	<u>(29,467)</u>	<u>(9,822)</u>	<u>-</u>	<u>(39,289)</u>
Net capital assets being depreciated	<u>68,756</u>	<u>(9,822)</u>	<u>-0-</u>	<u>58,934</u>
Capital assets, net	<u>\$ 106,756</u>	<u>\$ (9,822)</u>	<u>\$ -0-</u>	<u>\$ 96,934</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
2006 General Obligation Bonds	\$ 405,000	\$ -	\$ 15,000	\$ 390,000	\$ 15,000
2005 General Obligation Bonds	675,000	-	40,000	635,000	40,000
Installment loan	25,910	-	25,910	-0-	-
Compensated absences	<u>9,628</u>	<u>17,233</u>	<u>21,478</u>	<u>5,383</u>	<u>2,722</u>
	1,115,538	17,233	102,388	1,030,383	57,722
Business-type activities					
Enterprise Funds					
Water System Fund					
1981 Water Revenue Bonds	710,000	-	40,000	670,000	40,000
Compensated absences	<u>4,310</u>	<u>1,618</u>	<u>2,946</u>	<u>2,982</u>	<u>1,508</u>
	714,310	1,618	42,946	672,982	41,508
Sewer System Fund					
Compensated absences	<u>4,947</u>	<u>1,617</u>	<u>3,588</u>	<u>2,976</u>	<u>1,505</u>
	<u>719,257</u>	<u>3,235</u>	<u>46,534</u>	<u>675,958</u>	<u>43,013</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,834,795</u>	<u>\$ 20,468</u>	<u>\$ 148,922</u>	<u>\$ 1,708,341</u>	<u>\$ 100,735</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Bonds

\$405,000 Downtown Development Authority Bonds, dated May 1, 2006, due in annual installments ranging from \$15,000 to \$50,000 through September 1, 2020, with interest ranging from 4.50 to 4.60 percent, payable semi-annually. \$ 390,000

\$750,000 Limited Tax General Obligation Bonds, dated May 1, 2005, due in annual installments ranging from \$40,000 to \$65,000 through May 1, 2020, with interest ranging from 4.00 to 5.00 percent, payable semi-annually. 635,000

\$ 1,025,000

Revenue Bonds

\$940,000 1981 Water Revenue Bonds, due in annual installments ranging from \$25,000 to \$70,000 through April 1, 2021 with interest at 5.00 percent, payable semi-annually. \$ 670,000

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 55,000	\$ 44,016	\$ 40,000	\$ 32,500
2010	60,000	41,341	40,000	30,500
2011	65,000	38,753	45,000	28,500
2012	65,000	36,053	45,000	26,250
2013	75,000	33,241	50,000	24,000
2014-2018	440,000	115,061	290,000	80,250
2019-2021	<u>265,000</u>	<u>18,236</u>	<u>160,000</u>	<u>12,000</u>
	<u>\$ 1,025,000</u>	<u>\$ 326,701</u>	<u>\$ 670,000</u>	<u>\$ 234,000</u>

Compensated absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded in the governmental-wide financial statements, amounted to approximately \$11,341 at June 30, 2008. Of this amount, \$5,958 is recorded as a liability within the Enterprise funds, in accordance with criteria disclosed in Note A.

NOTE G: RISK MANAGEMENT

The City participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE H: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries.

Funding Policy

The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: RETIREMENT PLAN - CONTINUEDFunding Policy - continued

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees, unless the employer contribution exceeds 25%.

Annual Pension Cost

For year ended June 30, 2008, the City's annual pension cost of \$42,197 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include a (a) 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 367,435	\$ 419,306	\$ 467,344
Actuarial accrued liability (AAL) (entry age)	803,162	840,754	915,521
Unfunded AAL	435,727	421,448	448,177
Funded ratio	46 %	50 %	51 %
Covered payroll	197,533	215,846	213,766
UAAL as a percentage of covered payroll	221 %	195 %	210 %

	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 45,984	\$ 50,822	\$ 42,197
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE I: POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note H, the City provides post-employment health care benefits to all of its retired employees who meet eligibility requirements. Currently, the City is paying the health care premium for two (2) retirees. During the year, approximately \$21,015 was paid for post-employment health care.

The Governmental Accounting Standards Board has released Statement No. 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. This pronouncement is effective for the City of Montrose for the year ended June 30, 2010.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J: BUILDING CODE FINANCIAL INFORMATION

The City elected to report the financial activities of the building and code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2008:

REVENUES	
Building permits	\$ 8,889
EXPENDITURES	
Contracted services	(11,737)
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>\$(2,848)</u>

NOTE K: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund equity that the City has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are fund balance reserves as of June 30, 2008:

PRIMARY GOVERNMENT	
General Fund	
Reserved for:	
Prepays	\$ 1,420
Rubbish levy	<u>10,331</u>
	11,751
Special Revenue Funds	
Major Street	
Reserved for prepaids	1,191
Local Street	
Reserved for prepaids	<u>1,683</u>
	<u>2,874</u>
	<u>\$ 14,625</u>

The following is a fund balance designation as of June 30, 2008:

Capital Project Funds	
Downtown Development Projects Fund	
Designated for capital expenditures	<u>\$ 3,878</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2008:

PRIMARY GOVERNMENT

Governmental Activities

Restricted for streets

Major Street

\$ 35,084

Local Street

17,323

\$ 52,407

Business-type Activities

Restricted for debt service

Water System

\$ 70,082

Restricted for water assessment

Water System

\$ 11,395

REQUIRED SUPPLEMENTARY INFORMATION

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 409,223	\$ 410,223	\$ 418,677	\$ 8,454
Fees in lieu of taxes	14,000	14,000	22,318	8,318
Penalties and interest	10,400	12,400	4,563	(7,837)
Administration fees	14,500	14,500	13,992	(508)
Total taxes	448,123	451,123	459,550	8,427
Licenses and permits				
Cable television license	14,000	18,917	18,917	-0-
City licenses and permits	8,200	11,190	11,079	(111)
Total licenses and permits	22,200	30,107	29,996	(111)
Intergovernmental				
State - sales tax	183,775	220,451	220,451	-0-
Charges for services				
Solid waste	52,962	52,962	52,871	(91)
Administration charges	15,000	15,300	17,968	2,668
Other	100	150	145	(5)
Total charges for services	68,062	68,412	70,984	2,572
Fines and forfeits				
Parking	4,000	6,000	7,783	1,783
Interest and rents				
Interest	4,000	6,174	7,931	1,757
Rents	35,900	49,124	49,903	779
Total interest and rents	39,900	55,298	57,834	2,536
Other	3,700	6,691	6,470	(221)
TOTAL REVENUES	769,760	838,082	853,068	14,986

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
Current				
General government				
Legislative	\$ 29,318	\$ 30,356	\$ 27,793	\$ 2,563
City Manager	38,932	38,932	35,545	3,387
Elections	1,200	1,700	1,289	411
Assessor	10,189	10,589	9,989	600
Clerk	45,529	45,529	45,293	236
Board of Review	603	603	571	32
Treasurer	37,103	37,103	35,061	2,042
Other	17,537	8,165	7,489	676
Total general government	180,411	172,977	163,030	9,947
Public safety				
Police services	288,563	288,763	288,668	95
Fire services	51,765	52,464	52,463	1
Building and code enforcement	5,760	12,692	11,737	955
Total public safety	346,088	353,919	352,868	1,051
Public works				
Department of public works	48,853	54,753	51,899	2,854
Street lighting	23,500	27,000	23,578	3,422
Sanitation	54,521	54,521	54,507	14
Total public works	126,874	136,274	129,984	6,290
Community and economic developmen	2,561	3,061	2,359	702
Recreation and cultural				
Senior citizens center	2,600	2,600	913	1,687
Parks and recreation	12,422	12,422	9,235	3,187
Library	3,000	5,500	3,918	1,582
Total recreation and cultural	18,022	20,522	14,066	6,456

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Debt service				
Principal	\$ 25,996	\$ 25,996	\$ 25,910	\$ 86
Interest	567	567	567	-0-
Total debt service	26,563	26,563	26,477	86
Capital outlay	173,400	173,400	173,400	-0-
TOTAL EXPENDITURES	873,919	886,716	862,184	24,532
EXCESS OF REVENUES (UNDER) EXPENDITURES	(104,159)	(48,634)	(9,116)	39,518
OTHER FINANCING SOURCES (USES)				
Transfer in	173,400	-	-	-0-
Transfer out	(68,978)	(68,978)	(68,978)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	104,422	(68,978)	(68,978)	-0-
NET CHANGE IN FUND BALANCE	263	(117,612)	(78,094)	39,518
Fund balance, beginning of year	183,690	183,690	183,690	-0-
Fund balance, end of year	\$ 183,953	\$ 66,078	\$ 105,596	\$ 39,518

City of Montrose

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 85,407	\$ 88,004	\$ 88,285	\$ 281
Interest and rents	100	1,300	1,483	183
Other				
Special assessments	7,698	21,260	22,384	1,124
Other	-	2,839	2,958	119
TOTAL REVENUES	93,205	113,403	115,110	1,707
EXPENDITURES				
Current				
Public works	71,237	282,946	274,444	8,502
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21,968	(169,543)	(159,334)	10,209
OTHER FINANCING USES				
Transfer out	(18,750)	(19,250)	(19,275)	(25)
NET CHANGE IN FUND BALANCE	3,218	(188,793)	(178,609)	10,184
Fund balance, beginning of year	213,693	213,693	213,693	-0-
Fund balance, end of year	\$ 216,911	\$ 24,900	\$ 35,084	\$ 10,184

City of Montrose

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ 40,267	\$ 40,267	\$ 40,217	\$ (50)
Interest and rents	100	550	688	138
Other				
Special assessments	64,236	33,716	37,657	3,941
Other	-	1,445	1,504	59
TOTAL REVENUES	104,603	75,978	80,066	4,088
EXPENDITURES				
Current				
Public works	227,065	200,702	194,783	5,919
EXCESS OF REVENUES (UNDER) EXPENDITURES	(122,462)	(124,724)	(114,717)	10,007
OTHER FINANCING SOURCES				
Transfer in	18,750	19,250	19,275	25
NET CHANGE IN FUND BALANCE	(103,712)	(105,474)	(95,442)	10,032
Fund balance, beginning of year	112,765	112,765	112,765	-0-
Fund balance, end of year	\$ 9,053	\$ 7,291	\$ 17,323	\$ 10,032

OTHER SUPPLEMENTARY INFORMATION

City of Montrose
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2008

	Special Revenue	Debt Service	
	Depot Fund	Non-Voted Bonds	Downtown Development Bonds
ASSETS			
Cash and cash equivalents	\$ 6,597	\$ -	\$ -
Accounts receivable	10,000	-	-
TOTAL ASSETS	\$ 16,597	\$ -0-	\$ -0-
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 30	\$ -	\$ -
FUND BALANCES			
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in:			
Special Revenue Funds	16,567	-	-
TOTAL FUND BALANCES	16,567	-0-	-0-
TOTAL LIABILITIES AND FUND BALANCES	\$ 16,597	\$ -0-	\$ -0-

Capital Projects		Total Nonmajor Governmental Funds
Capital Projects	Downtown Development Projects	
\$ -	\$ 3,878	\$ 10,475
-	-	10,000
<u>\$ -0-</u>	<u>\$ 3,878</u>	<u>\$ 20,475</u>
\$ -	\$ -	\$ 30
-	3,878	3,878
-	-	16,567
<u>-0-</u>	<u>3,878</u>	<u>20,445</u>
<u>\$ -0-</u>	<u>\$ 3,878</u>	<u>\$ 20,475</u>

City of Montrose

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue	Debt Service	
	Depot Fund	Non-Voted Bonds	Downtown Development Bonds
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 30,986
Interest and rents	141	-	14
Other			
Contributions	10,000	-	-
Other	9,972	-	-
TOTAL REVENUES	20,113	-0-	31,000
EXPENDITURES			
Current			
Community and economic development	5,729	-	-
Debt service			
Principal	-	40,000	15,000
Interest	-	28,978	18,163
Capital outlay	-	-	-
TOTAL EXPENDITURES	5,729	68,978	33,163
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	14,384	(68,978)	(2,163)
OTHER FINANCING SOURCES			
Transfers in	-	68,978	-
NET CHANGE IN FUND BALANCES	14,384	-0-	(2,163)
Fund balances, beginning of year	2,183	-	2,163
Fund balances, end of year	\$ 16,567	\$ -0-	\$ -0-

Capital Projects		Total Nonmajor Governmental Funds
Capital Projects	Downtown Development Projects	
\$ -	\$ -	\$ 30,986
332	86	573
-	-	10,000
-	-	9,972
332	86	51,531
-	-	5,729
-	-	55,000
-	-	47,141
128,525	-	128,525
128,525	-0-	236,395
(128,193)	86	(184,864)
-	-	68,978
(128,193)	86	(115,886)
128,193	3,792	136,331
\$ -0-	\$ 3,878	\$ 20,445

City of Montrose

Fiduciary Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	Current Tax Collection	Delinquent Tax Collection	Total Agency Funds
ASSETS			
Cash	\$ 30,344	\$ 6,598	\$ 36,942
Due from individuals and agencies	90	-	90
TOTAL ASSETS	\$ 30,434	\$ 6,598	\$ 37,032
LIABILITIES			
Due to other governmental units	\$ 30,434	\$ 6,598	\$ 37,032

City of Montrose

Component Unit Fund

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2008

	Special Revenue
	<u>Downtown</u>
	<u>Development</u>
	<u>Authority</u>
ASSETS	
Cash	<u>\$ 71,968</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 96
FUND BALANCE	
Unreserved - undesignated	<u>71,872</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 71,968</u>

City of Montrose

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

Fund balance - governmental fund \$ 71,872

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 136,223
Accumulated depreciation is	<u>(39,289)</u>

Capital assets, net	<u>96,934</u>
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Net assets of governmental activities	<u><u>\$ 168,806</u></u>
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City of Montrose

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended June 30, 2008

	Special Revenue Downtown Development Authority
REVENUES	
Taxes	\$ 83,693
Interest	<u>2,067</u>
TOTAL REVENUES	85,760
EXPENDITURES	
Current	
Community and economic development	<u>101,229</u>
NET CHANGE IN FUND BALANCE	(15,469)
Fund balance, beginning of year	<u>87,341</u>
Fund balance, end of year	<u><u>\$ 71,872</u></u>

City of Montrose

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2008

Net change in fund balance - governmental fund	\$ (15,469)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	<u>(9,822)</u>
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Change in net assets of governmental activities	<u>\$ (25,291)</u>
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